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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2009

AUDIT REPORT

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LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Monica Huyg, Legal Counsel

Deputy Legislative Auditors:
James Gillett
Angie Grove

February 2010

The Legislative Audit Committee
of the Montana State Legislature:

Enclosed is the report on the audit of Miles Community College for the fiscal year ended June 30, 2009.

The audit was conducted by Denning, Downey & Associates, CPA's PC under a contract between the firm and our office. The comments and recommendations contained in this report represent the views of the firm and not necessarily the Legislative Auditor.

Respectfully submitted,

Tori Hunthausen, CPA
Legislative Auditor

09C-08

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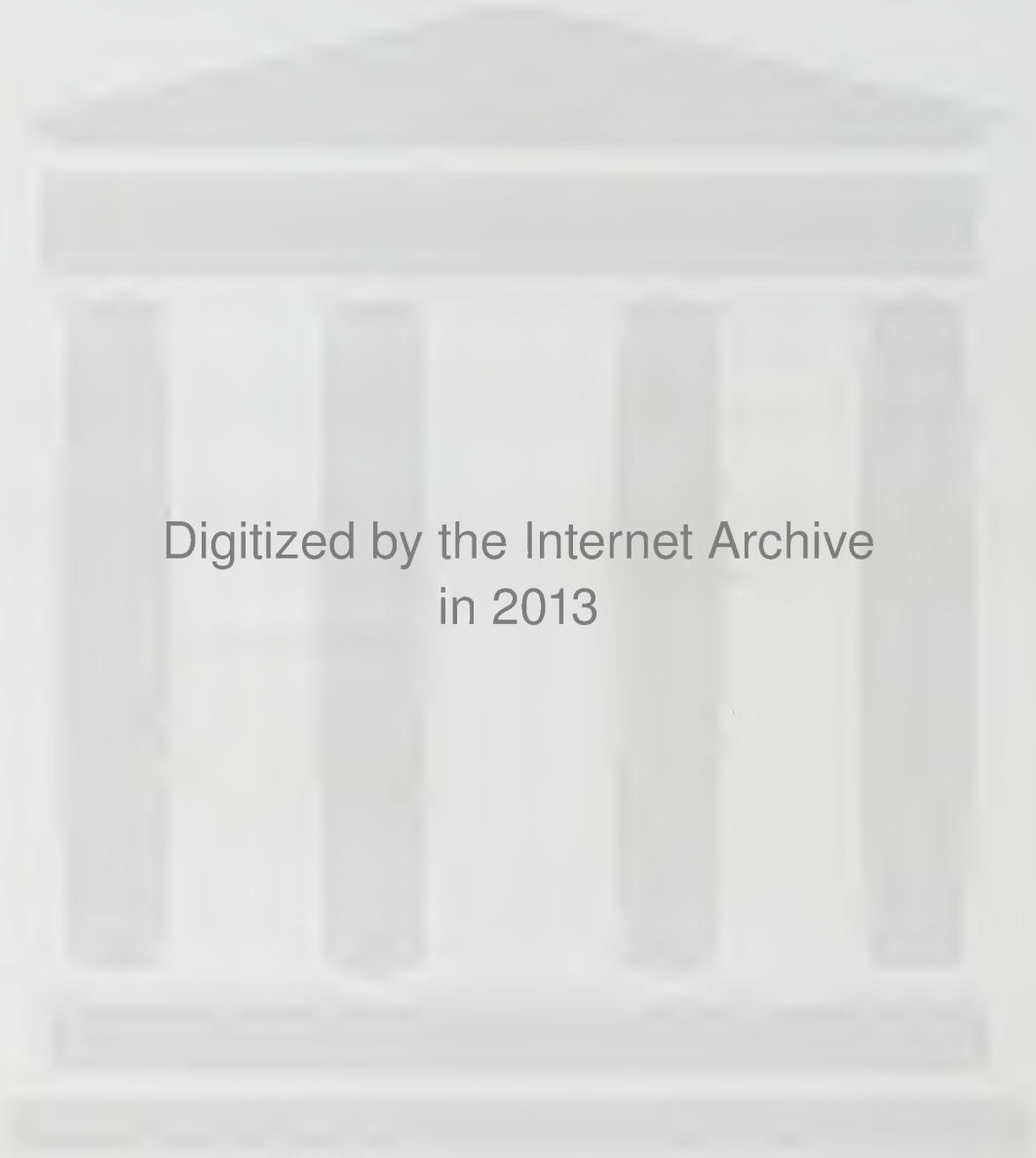
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MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

Fiscal Year Ended June 30, 2009

TABLE OF CONTENTS

Organization	1
Management's Discussion and Analysis	2-8
Independent Auditor's Report	9-10
Financial Statements	
Statement of Net Assets – Business-type Activities	11
Statement of Revenues, Expenses and Changes in Net Assets	12
Statement of Cash Flows	13
Fiduciary Funds – Statement of Fiduciary Net Assets	14
Fiduciary Funds – Statement of Changes in Fiduciary Net Assets	15
Notes to Financial Statements	16-28
Required Supplemental Information	
Functional Classification of Operating Expenses	29
Student Financial Aid Modified Statement of Cash Receipts and Disbursements	30
Student Financial Assistance Programs	31
Schedule of Full Time Equivalent	32
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards	33-34
Report on Other Compliance, Financial, and Internal Accounting Control Matters	35-36
Report on Prior Audit Recommendations	37

MILES COMMUNITY COLLEGE

CUSTER COUNTY, MONTANA

ORGANIZATION

Fiscal Year Ended June 30, 2009

BOARD OF TRUSTEES

Garret McFarland	Chairperson
Rusty Irion	Vice Chairperson
Bill Griffin	Trustee
Sharon Wilcox	Trustee
Kelly Reid	Trustee
Susan Stanton	Trustee
Jan Wagner	Trustee

COLLEGE OFFICIALS

Stefani Hicswa	President
Tad Torgerson	Administrative Dean
Laura Bennett	Controller
Shane Vannatta	Attorney

Miles Community College, Custer County, Montana
Management's Discussion and Analysis
Fiscal Year Ended June 30, 2009

Overview

Miles Community College's Management Discussion and Analysis (MD&A) presents an overview of its financial condition and assists the reader in focusing on significant financial issues for the year ended June 30, 2009. The discussion has been prepared by management and should be read in conjunction with the accompanying financial statements and footnotes.

Financial and Other College Highlights

- **Personnel –** A full-time Coordinator of Admissions and Student Life was hired in July 2008. This position assists the college in meeting the needs of current and potential students. A full-time Centra Wellness Coordinator was hired in January 2009. This position assists the Centra Director with physical education activities. In February 2009, we implemented a new Insurance Program Developer Position to help coordinate and develop the new insurance program.
- **Union Negotiations –** The Miles Community College Faculty Association, a MEA-MFT faculty union, and Miles Community College Board of Trustees completed the third negotiation cycle with the use of interest-based bargaining. A two-year master agreement was reached for FY 2010 and FY 2011.
- **Program Development** – The Vice President of Academic Affairs is working with businesses and faculty to develop programs needed in the area. The College has developed a BioFuels program which includes an Associates of Applied Science in Biofuels as well as an Associates of Science transfer degree with a Biofuels emphasis. The College is also developing an Associates of Applied Science in Insurance and a transfer Associates of Science with an emphasis in Insurance.
- **Grant** –The Department of Health and Human Services Health Resources and Service Administration (HRSA) awarded Miles Community College a $331,692 grant to develop programs for Pharmacy Technician and Medical Lab Technician. In addition, HRSA awarded a $94,050 grant which will enable the College to convert a classroom into a second science lab to accommodate the existing and new programs.
- **Distance Education programs** – In response to the educational needs of a rural community, the college has developed 21 additional online classes in FY2009. Miles Community College is second in the state for offerings of online programs. The Certified Nursing Assistant program was realigned as Workforce Development education in place of credit courses to better serve regional medical providers with distance sites and online classes.
- **Enrollment (FTE)** – In FY 2009, the College experienced a 1.7 percent decrease in enrollment with 398 residents FTE. Management feels the major cause for the decrease in enrollment is due to the relatively strong local economy and continuing low unemployment rates.
- **Building Updates** – In FY 2009, the dining services remodel was started and will be completed by the start of fall semester 2009. The remodel offers students a warmer and more inviting atmosphere. In addition, Dining Services was equipped with wireless internet to provide students additional study space.

Using the Financial Statements

The College's financial statements consist of the following three statements:

- Statement of Net Assets
- Statement of Revenues, Expenses and Changes in Net Assets
- Statement of Cash Flows

These financial statements are prepared in accordance with Governmental Accounting Standards Board (GASB) Statement 35, *Basic Financial Statements-and Management's Discussion and Analysis-For Public Colleges and Universities.* They differ significantly, in form and the accounting principles utilized, from financial statements presented prior to FY 2003. The financial statements presented in prior years focused on the accountability of funds, while these statements focus on the financial condition of the College, the results of operations, and cash flows of the College as a whole.

Significant changes to the financial statements are as follows:

- The financial statements are prepared using the accrual basis of accounting, which means revenues are reported when earned and expenses are reported when incurred, regardless of when the cash was actually received or paid.
- Capital assets are now depreciated over their expected useful lives instead of recorded entirely as a current period expense in the year of acquisition. Depreciation is treated as an operating expense, and capital assets are reported in the statements at cost less accumulated depreciation.
- Assets and Liabilities are treated as current (due within one year) or as non-current (due in more than one year), and in the Statement of Net Assets are presented in order of their relative liquidity.
- Revenues and Expenses are classified as operating or non-operating. "Operating" is defined by the Governmental Accounting Standards Board (GASB) as resulting from transactions involving exchanges of goods or services for payment. "Non-operating" is defined by GASB as resulting from transactions not involving the exchange of goods or services for payment. Miles Community College shows a substantial "operating loss" in the Statement of Revenues, Expenses, and Changes in Net Assets primarily because GASB requires that State Appropriation and District Levy revenues must be reported as "non-operating".
- Tuition and Fees are reported net of any Tuition Waivers that were applied directly to a students account.

The three financial statements are designed to help the reader of the financial statements to determine whether the College's overall financial condition has improved or deteriorated as a result of the current year's financial activities. These financial statements present similar information to that disclosed in private sector financial statements.

Statement of Net Assets

The Statement of Net Assets, which reports all assets and liabilities of the College, presents the financial position of the College at the end of the fiscal year. The net assets are simply the difference between total assets and total liabilities. The change in net assets during the fiscal year is an indicator of the change in the overall financial condition of the College during the year. A summary of the Balance Sheet follows:

ASSETS	6/30/2008	6/30/2009
Total Current Assets	$ 2,341,246	$ 2,398,279
Total Noncurrent Assets	4,969,686	5,401,335
TOTAL ASSETS	$ 7,310,932	$ 7,799,614
LIABILITES		
Total Current Liabilities	$ 437,960	$ 416,887
Total Noncurrent Liabilities	2,598,850	2,537,339
TOTAL LIABLILITES	$ 3,194,328	$ 2,954,226
NET ASSETS		
Invested in Capital Assets, Net of Related Debt	$ 2,436,048	$ 2,981,649
Restricted, Expendable	282,665	297,266
Unrestricted	1,528,409	1,566,473
TOTAL NET ASSETS	$ 4,274,122	$ 4,845,388

Current assets include the College's cash; taxes, grants, student loan, and accounts receivable; inventories; and other assets expected to benefit the College within one year. The $57,033 increase from FY 2008 to FY 2009 was due primarily to an increase in grants receivable.

Noncurrent assets primarily represent the College's Capital Assets less Accumulated Depreciation.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, revenue received which the College has not yet earned, student deposit balances, and debt principal payments due within one year. Total current liabilities decreased by almost $21,073 from FY 2008 to FY 2009, due largely to the decrease in accounts payable. In previous years, current compensated leave was calculated using 4 percent of total compensated leave. Last year, current compensated leave was calculated using 10 percent of total compensated leave due to announced retirements. This year 4 percent was used in the calculation of current compensated leave as announced retirements decreased from last year and are more consistent with previous years.

Noncurrent liabilities primarily represent debt principal payments due after a one-year period. It also includes the amount of compensated absence liability estimated to be due after a one-year period.

Invested in capital assets, net of related debt represents the historical costs of capital assets less accumulated depreciation and less debt balances related to the capital assets. This balance increases as assets are acquired and debt is repaid, and decreases as assets are depreciated and debt is incurred. Total capital assets net of related debt increased by $545,601 from FY 2008 to FY 2009 with the cafeteria remodel. The cafeteria remodel was accomplished without accruing additional related debt.

Restricted expendable net assets represent funds that may be expended by the College but only in accordance with restrictions imposed by an external party, such as a donor or governmental entity.

Unrestricted net assets are funds that the College has to use for whatever purpose it determines is appropriate. These assets may be designated for specific purposes by action of management.

Total net assets increased by $571,266 from FY 2008 to FY 2009, which indicates the overall financial position of the College has improved over that time period.

Statement of Revenue, Expenses, and Changes in Net Assets

The Statement of Revenues, Expenses and Changes in Net Assets presents the revenues earned and expenses incurred during the year on a full accrual basis, which means revenues and expenses are recognized when they were earned or incurred, regardless of when cash was received or paid. Results of operations are classified as either operating or nonoperating.

A summary of the Statement of Revenues, Expenses and Changes in Net Assets follows:

	6/30/2008	6/30/2009
Operating Revenues	$ 4,969,974	$ 5,131,531
Operating Expenses	7,998,584	8,355,340
OPERATING LOSS	$ (3,028,610)	$ (3,223,809)
Nonoperating Revenues (Expenses)	$ 3,557,419	$ 3,790,324
Loss on Disposal of Capital Assets	(1,348)	(250)
Transfer from fiduciary funds	5,000	5,000
INCREASE (DECREASE) IN NET ASSETS	$ 532,462	$ 571,265
Net Assets, Beginning of Year	$ 3,741,661	$ 4,274,123
Restatement of expenses		
Net Assets, End of Year	$ 4,274,123	$ 4,845,388

Operating revenues represent the revenue received from tuition and fees, federal, state, and private grants and contracts, indirect cost recoveries (from grants), auxiliary activities, and other operating revenues. Total operating revenues increased by $161,557 from FY 2008 to FY 2009. This is mainly due to the increase in Federal grants and contracts. In addition, tuition increased because of a change in the mix of in-district, out-of-district and out-of-state students.

Nonoperating revenue (expenses) consists of interest income, state appropriations, district levies, interest payments, and other non-operating revenues and expenses. Nonoperating revenue increased $232,905 from FY 2008 to FY 2009. The major item affecting this change is state appropriations. A new state funding formula, based on a fixed vs. variable cost model, was implemented in FY 2008. The new funding formula decreased the significance of FTE students, which resulted in more stable funding.

Increase (decrease) in net assets represents the difference between total revenues and total expenses.

The following provides a comparative analysis of revenues and expenses for two fiscal years:

ANALYSIS OF ALL SOURCES OF REVENUE

SOURCE OF REVENUE	FISCAL YEAR 2008 AMOUNT	PERCENT	FISCAL YEAR 2009 AMOUNT	PERCENT	INCREASE (DECREASE FY'08 VS FY'09
Operating Revenues					
Tuition and Fees (Net)	$1,385,019	16.00%	$ 1,486,656	16.46%	$ 101,637
Federal Grants and Contracts	1,205,601	13.93%	1,320,995	14.63%	115,394
State Grants and Contracts	466,858	5.39%	553,415	6.13%	86,557
Private and Local Grants and Contracts	446,095	5.15%	318,170	3.52%	(127,925)
Indirect Cost Recoveries	26,905	0.31%	76,273	0.84%	49,368
Auxiliary Enterprise Activities	1,095,927	12.66%	1,104,129	12.23%	8,202
Other Operating Revenues	343,569	3.97%	271,893	3.01%	(71,676)
Total Operating Revenue	$4,969,974	57.43%	$ 5,131,531	56.82%	$ 161,557
Nonoperating Revenues					
Interest Income	$ 81,228	0.94%	$ 58,396	0.65%	$ (22,832)
State Appropriations	2,241,808	25.91%	2,440,365	27.02%	198,557
District Levies	1,360,691	15.72%	1,401,419	15.52%	40,728
Total Nonoperating Revenues	$3,683,727	42.57%	$ 3,900,180	43.18%	$ 216,453
Total Revenue	$8,653,701	100%	$ 9,031,711	100%	$ 378,010

ANALYSIS OF CATEGORY OF EXPENSE

CATEGORY OF EXPENSE	FISCAL YEAR 2008 AMOUNT	PERCENT	FISCAL YEAR 2009 AMOUNT	PERCENT	INCREASE (DECREASE FY'08 VS FY'09
Operating Expenses					
Salaries	$ 3,312,738	40.77%	$ 3,426,521	40.48%	$ 113,783
Benefits	1,060,845	13.06%	1,144,475	13.52%	83,630
Travel	206,399	2.54%	241,332	2.85%	34,933
Supplies	483,979	5.96%	402,922	4.76%	(81,057)
Contracted Service	328,176	4.04%	352,406	4.16%	24,230
Rent and Lease	113,025	1.39%	138,599	1.64%	25,574
Repairs and Maintenance	74,165	0.91%	57,962	0.68%	(16,203)
Advertising	55,791	0.69%	84,350	1.00%	28,559
Meetings and Dues	31,439	0.39%	26,967	0.32%	(4,472)
Utilities	155,678	1.92%	166,180	1.96%	10,502
Student Support	6,239	0.08%	4,442	0.05%	(1,797)
Communications	90,173	1.11%	99,229	1.17%	9,056
Software	17,863	0.22%	27,395	0.32%	9,532
Unassigned	50,383	0.62%	43,237	0.51%	(7,146)
Scholarships and Grants	1,131,417	13.93%	1,163,229	13.74%	31,812
Insurance	85,052	1.05%	65,197	0.77%	(19,855)
Indirect Costs	26,305	0.32%	75,673	0.89%	49,368
Food for Resale	166,948	2.05%	176,073	2.08%	9,125
Items for Resale	161,971	1.99%	178,990	2.11%	17,019
Other Operating Expenses	166,707	2.05%	172,621	2.04%	5,914
Depreciation Expense	273,291	3.36%	307,540	3.63%	34,249
Total Operating Expenses	$ 7,998,584	98.45%	$ 8,355,340	98.70%	$ 356,756
Nonoperating Expenses					
Interest Payments	$ 126,308	1.55%	$ 109,856	1.30%	$ (16,452)
Other Nonoperating Expenses	-	0.00%	-	0.00%	-
Total Nonoperating Expenses	$ 126,308	1.55%	$ 109,856	1.30%	$ (16,452)

Comments about specific revenue and expense items are:

- **Private and Local Grants and Contracts** – During FY 2009 the College received funding from the Miles Community College Endowment Corporation, Glendive Medical Center and Sidney Healthcare to assist with program costs.
- **Expenses (general comment):** Overall expenses increased $340,304 from FY 2008 to FY 2009. Faculty and staff cost-of-living increases and faculty step increases were the most significant factor affecting the overall increase.

Statement of Cash Flows

The Statement of Cash Flows provides information about the College's sources and uses of cash during the fiscal year. This statement aids in assessing the College's ability to meet obligations and commitments as they become due, their ability to generate future cash flows and their needs for external financing. As required by GASB, the statement is presented using the "Direct Method," which focuses on those transactions that either provided or used cash during the fiscal year.

A summary of the Statement of Cash Flows follows:

CASH FLOW CATEGORY	6/30/2008	6/30/2009
Cash Provided (Used) by:		
Operating Activities	$ (2,657,109)	$ (2,977,859)
Nonoperating Activities	3,532,911	3,827,822
Capital Financing Activities	(428,522)	(936,497)
Investing Activities	81,228	58,396
Net Increase (Decrease) in Cash	$ 528,598	$ (28,138)
Cash and Cash Equivalents, Beginning of Year	$ 1,502,990	$ 2,031,588
Agency Fund Adjustment		
Cash and Cash Equivalents, End of Year	$ 2,031,588	$ 2,003,450

DISCUSSION OF SIGNIFICANT PENDING ECONOMIC AND FINANCIAL ISSUES

- **Population** – The College will continue to experience challenges due to the declining population in our service area, and we will continue to explore opportunities to grow enrollment.
- **Faculty and Staff** – The ability to attract and keep high quality faculty and staff because of our salary schedule is a concern of the College.
- **Program Development** – With regional changes, the College is challenged with meeting the educational service needs of the rural community and the financial cost to meet those needs. The College has recognized that a crucial component for the successful recruitment and retention of students is the development of quality academic and professional technical programs. We are currently in the process of developing or revising programs.
- **State Funding** – We will continue to look for alternate sources of funding such as state and federal grants, business partnerships, and partnerships with other educational institutions.

- **Shared Governance** - Working meetings are held monthly to facilitate ideas to improve the college experience for students, faculty, and staff. Administration and each section of the college have worked together on the fiscal budgeting process.
- **Student Information System** – The College has implemented online payment for students. In addition, online payment is available for community outreach classes. The next step in the implementation is to offer an online Bookstore and shopping cart. To enhance the student experience, we are looking to implement Banner, a new software system for finance, student services and human resources.
- **Deferred Maintenance** – The campus main facility is 40 years old; therefore, deferred maintenance is a very important issue. We have received funding from House Bill 645, which includes State General fund and American Recovery and Reinvestment funding, for deferred maintenance projects. Department of Environmental Quality (DEQ) is conducting an energy efficient audit to determine which projects may qualify for loan funding for energy conservation projects. We continue to look for other possibilities of available funding resources. We are working with a local architectural firm to assist us in the deferred maintenance projects and funding resources.

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Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Miles Community College
Custer County
Miles City, Montana

We have audited the accompanying financial statements of the business-type activities, aggregate remaining fund information and discretely presented component unit of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Miles Community College management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities, aggregate remaining fund information and discretely presented component unit of Miles Community College, Custer County, Montana, as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 8, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Robert K. Denning, CPA · Kim M. Downey, CPA

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the College's basic financial statements. The Student Financial Aid Modified Statement of Cash Receipts and Disbursements and the Schedule of Expenditures of Student Financial Assistance Programs are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and we express no opinion on them. The accompanying Schedule of Full Time Equivalent and the Functional Classification of Operating Expenses are presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Denning, Downey and Associates, CPA's, P.C.

December 18, 2009

Miles Community College, Custer County, Montana
Statement of Net Assets
June 30, 2009

	Business-Type Activities	Component Unit Miles Community College Endowment
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 1,706,184	$ -
Taxes receivable	76,164	-
Grants receivable	175,184	-
Student Loan receivable	33,909	-
Accounts receivable	121,253	-
Prepaid expense	23,544	-
Inventories	47,164	-
Total current assets	$ 2,183,402	$ -
Noncurrent assets:		
Restricted cash and cash equivalents	$ 297,266	$ 419,378
Capital assets	8,997,384	-
Less: Accumulated depreciation	(3,678,438)	-
Total noncurrent assets	$ 5,616,212	$ 419,378
Total assets	$ 7,799,614	$ 419,378
LIABILITIES		
Current liabilities:		
Accounts payable	$ 4,475	$ -
Accrued payroll	234,374	-
Deferred revenue -tuition and fees	50,217	-
Dormitory deposits	8,700	-
Current portion of compensated absences payable	127,510	-
Current portion of long-term capital liabilities	106,274	-
Total current liabilities	$ 531,550	$ -
Noncurrent liabilities:		
Noncurrent portion of compensated absences payable	$ 191,653	$ -
Noncurrent portion of long-term capital liabilities	2,231,023	-
Total noncurrent liabilities	$ 2,422,676	$ -
Total liabilities	$ 2,954,226	$ -
NET ASSETS		
Invested in capital assets, net of related debt	$ 2,981,649	$ -
Restricted for student loans	53,637	-
Restricted for debt service	82,389	-
Restricted for scholarships, research, instruction and other	161,240	419,378
Unrestricted	1,566,473	-
Total net assets	$ 4,845,388	$ 419,378
Total liabilities and net assets	$ 7,799,614	$ 419,378

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Revenues, Expenses, and Changes in Net Assets
June 30, 2009

	Business-Type Activities	Component Unit Miles Community College Endowment
OPERATING REVENUES		
Tuition and fees (net of scholarship allowance of $509,321)	$ 1,486,656	$ -
Federal grants and contracts	1,320,995	-
State grants and contracts	553,415	-
Private and local grants and contracts	318,170	60,464
Indirect cost recoveries	76,273	-
Space/rental income	14,790	-
Athletic room and board	53,135	-
Other athletic allowance	91,407	-
Auxiliary activities:		
Bookstore (net of book buybacks and returns of $55896)	248,044	-
Food services	283,005	-
Centra	172,076	-
Big Sky dorm	401,004	-
Other operating revenues	112,561	-
Total operating revenues	$ 5,131,531	$ 60,464
OPERATING EXPENSES		
Salaries	$ 3,426,521	$ -
Benefits	1,144,475	-
Travel	241,332	-
Supplies	402,922	50
Contracted services	352,406	2,509
Rent and lease	138,599	-
Repairs and maintenance	57,962	-
Advertising	84,350	-
Meetings and dues	26,967	230
Utilities	166,179	-
Student support	4,442	-
Communications	99,229	-
Software	27,395	-
Scholarships and grants	1,163,229	42,065
Insurance	65,197	-
Indirect costs	75,673	-
Food for resale	176,073	-
Items for resale	178,990	-
Bad debt expense	43,237	870
Other expense	172,621	1,603
Depreciation expense	307,540	-
Total operating expenses	$ 8,355,339	$ 47,327
Operating income (loss)	$ (3,223,808)	$ 13,137
NONOPERATING REVENUES (EXPENSES)		
Interest income (Loss)	$ 58,396	$ (59,416)
State appropriation	2,440,365	-
State reimbursements	219,053	-
District levies	1,182,366	-
Interest payments	(109,856)	-
Loss on disposal of capital assets	(250)	-
Total non-operating revenues (expenses)	$ 3,790,074	$ (59,416)
Income (loss) before contributions and transfers	$ 566,266	$ (46,279)
Transfers from fiduciary funds	$ 5,000	$ -
Change in net assets	$ 571,266	$ (46,279)
Net assets - beginning	$ 4,274,122	$ 467,253
Restatements		(1,596)
Net assets - ending	$ 4,845,388	$ 419,378

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Cash Flows
For the Fiscal Year Ended June 30, 2009

		Business-Type Activities
Cash flows from operating activities:		
Tuition and fees	$	1,405,847
Grants and contracts		2,145,144
Payments to employees		(3,371,628)
Payments for benefits		(1,144,475)
Payments to suppliers		(1,875,679)
Payments for utilities		(166,180)
Payments for scholarships and fellowships		(1,163,229)
Collection of loans to students		712
Auxiliary enterprise charges:		
Resident halls		393,074
Bookstore		248,044
Food Services		283,005
Centra		172,076
Other receipts (payments)		95,430
Net cash provided (used) by operating activities	$	(2,977,859)
Cash flows from capital financing activities:		
Purchases of capital assets	$	(727,883)
Loss on disposal of cpaital assets		(250)
Principal paid on capital debt		(98,508)
Interest paid on capital debt		(109,856)
Net cash provided (used) from non-capital financing activities	$	(936,497)
Cash flows from noncapital financing activities:		
State appropriations	$	2,440,365
State reimbursements		219,053
District levies		1,206,391
Other nonoperating expenses		(42,987)
Transfers from fiduciary funds		5,000
Net cash provided (used) by capital and related financing activities	$	3,827,822
Cash flows from investing activities:		
Interest income	$	58,396
Net increase (decrease) in cash and cash equivalents	$	(28,138)
Cash and cash equivalents at beginning of year		2,031,588
Cash and cash equivalents at end of year	$	2,003,450
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	$	(3,223,809)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense		307,540
Bad debt expense		43,237
Changes in net assets and liabilities:		
Increase in accounts receivable		(74,979)
Increase in grants receivable		(47,436)
Increase in prepaid expense		(7,367)
Decrease in inventory		9,030
Decrease in accounts payable		(12,379)
Increase in compensated absences payable		28,304
Net cash provided (used) by operating activities	$	(2,977,859)

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana

Statement of Fiduciary Net Assets

Fiduciary Funds

June 30, 2009

		Private-Purpose Trusts
ASSETS		
Cash and cash equivalents	$	14,855
Receivables:		
Accounts receivable		32,761
Prepaid expenses		110
Total receivables	$	32,871
Total assets	$	47,726
NET ASSETS		
Assets held in trust	$	47,726

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Statement of Changes in Fiduciary Net Assets
Fiduciary Funds
For the Fiscal Year Ended June 30, 2009

		Private Purpose Trust Funds
ADDITIONS:		
Contributions from private sources	$	181,910
Total additions	$	181,910
DEDUCTIONS:		
Student activities	$	185,239
Transfers out		5,000
Total deductions	$	190,239
Change in net assets	$	(8,329)
Net assets - beginning of the year	$	56,055
Net assets - end of the year	$	47,726

See accompanying Notes to the Financial Statements

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NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The College complies with generally accepted accounting principles (GAAP). GAAP includes all relevant Governmental Accounting Standards Board (GASB) pronouncements. In the government-wide financial statements, Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989, have been applied unless those pronouncements conflict with or contradict GASB pronouncements, in which case GASB prevails. For enterprise funds GASB statement Nos. 20 and 34 provide the College the option of electing to apply FASB pronouncements issued after November 30, 1989. The College has elected not to apply those pronouncements.

Financial Reporting Entity

In determining the financial reporting entity, the College complies with the provisions of GASB statement No, 14, *The Financial Reporting Entity*, and GASB Statement 39 which amended Statement 14, and includes all component units of which the College appointed a voting majority of the units' board; the College is either able to impose it's will on the unit or a financial benefit or burden relationship exists.

Primary Government

The College was established under Montana law to provide post-secondary educational services. Based on the criteria for determining the reporting entity (separate legal entity and financial or fiscal dependency on other governments) the College is a primary government as defined by GASB Cod. Sec. 2100 and has component units.

Discretely Presented Component Units

Discretely presented component units are separate legal entities that meet the component unit criteria described above but do not meet the criteria for blending. The component units listed below have a fiscal year ending June 30, 2009. The College has the following discretely presented component units:

Miles Community College Endowment

Summary of Significant Accounting Policies

Nature of Activities
The Miles Community College Endowment is a non profit organization exempt from federal income tax under Section 501 (c) (3) of the Internal Revenue Code. The Miles Community College Endowment assists the Miles Community College in achieving its mission to provide affordable and accessible comprehensive, quality, student-centered academic preparation and innovative vocational training programs. The mission of the Miles Community College Endowment is to assist the College with fundraising and to promote community awareness of campus needs to increase the flow of resources to support excellence in education. The primary sources of revenue for the Endowment are from contributions and investment income.

Basis of Accounting
The accounts of the Endowment are maintained, and the financial statements are prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned and expenses are recognized when incurred.

Cash and Cash Equivalents
For financial statement purposes, the Endowment considers all highly-liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Classification of Net Assets
The Endowment classifies all net assets as restricted by donor.

Investments
Investments are carried at fair value, unrecognized gains and losses are reflected in the Statement of Revenues, Expenses and Changes in Net Assets as Interest Income.

Estimates
The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities, and the reported amounts of revenue and expenses. Actual results could differ from those estimates.

Basis of Presentation, Measurement Focus and Basis of Accounting.

Proprietary Funds:
The proprietary fund is accounted for using the accrual basis of accounting. Proprietary funds account for operations that are primarily financed by user charges. The economic resource focus concerns determining costs as a means of maintaining the capital investment and management control. Revenues are recognized when earned and expenses are recognized when incurred. Allocations of costs, such as depreciation, are recorded in proprietary funds.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result form providing services and producing and delivering goods in connections with a proprietary fund's principal ongoing operations. The principal operating revenues for enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revues and expenses. When both restricted and unrestricted resources are available for use, it is the Colleges policy to use restricted resources first, then unrestricted resources as they are needed. The College has only one proprietary fund other than Fiduciary Funds.

Fiduciary Funds
The College reports the student activities funds as fiduciary funds as they represent assets held in a trust capacity for the student activities and therefore cannot be used to support the College's own programs.

NOTE 2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash Composition
The College's cash, except for the Perkins Loan Fund is held by the County Treasurer and pooled with other County cash. College cash which is not necessary for short-term obligations, the College participates in a County-wide investment program whereby all available cash is invested by the County Treasurer in pooled investments. Interest earned on the pooled investments is distributed to each contributing entity and fund on a pro rata basis. The County's investment portfolio as of June 30, 2009, consisted of time deposits, U.S. Treasury Notes, Repurchase Agreements and the State Short-Term Investment Pool (STIP).

The College may invest in savings deposits, time deposits or repurchase agreements in financial institutions that are both located in Montana and insured by FDIC, FSLIC, or NCUA. The College may also invest in general obligations of the United States Government, Federal Home loan Bank, Federal National Mortgage Association, Federal Home Mortgage Corporation, and Federal Farm Credit Bank, or a U.S. government security money market fund which holds eligible securities in its investment program, or in a unified investment program with the state, county treasurer, or any other political subdivision as long as investments are eligible.

For purposes of the Statement of Cash Flows, cash equivalents include all cash and investments.

Deposits
The College's deposit balance at year end was $19,234 and the bank balance was $19,234. This amount was fully insured.

Component Unit Investments

The Endowment invests primarily in mutual funds, equity securities, and corporate debt securities. At June 30, 2009, investments are comprised of the following:

	Cost	Fair Market Value
Investment Centers of America		
Mutual Funds	$ 71,865	$ 38,313
Ameriprise Financial		
RVS-Port. Builder Moderate Fund	83,027	66,862
RVS-High Yield Bond Fund	178,976	149,664
Edward Jones		
Growth Fund of America	42,462	33,750
First Interstate Financial		
Mutual Funds-MFS Utilities B	53,495	50,386
Total	$429,825	$ 338,975

As of the date of the report, the Fair Market Value of the investments have decreased by an additional $90,850.

Component Unit Cash and Cash Equivalents

The components of cash and cash equivalents as of June 30, 2009 are as follows:

Cash in Bank	$ 79,576
Endowment Money Market Investments	827
Total	$ 80,403

This amount was fully insured.

Cash and investments as of June 30, 2009, consist of the following:

	College	Component Unit
Cash on Hand	$ 8,906	$ -
Demand Deposit Accounts	19,234	80,403
Invested in the County Investment Pool	1,990,165	-
Invested in Mutual Funds, Equity Securities and Corporate Debt Securities	-	338,975
Total Cash and Investments	$2,018,305	$ 419,378

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in the market rates.

Information about the sensitivity of the fair value of the College's investments to market interest rate fluctuations is provided by the following tables that show the maturity date of each investment.

	June 30, 2009
Custer County Investment Pool	$1,990,165

No interest rate risk disclosure is made for the investments of the component unit.

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Custer County Investment Pool does not have a rating provided by a nationally recognized statistical rating organization.

Concentration of credit risk

The investment policy of the College contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Montana Code Annotated. There are no investments in any one issuer that represent 5% or more of the total College investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Montana law requires 50% security of deposits with financial institutions in excess of the depository insurance coverage limits. A governmental entity's money is insured for each "public unit" based on how the account is titled at the financial institution. The Custer County government is considered to have $250,000 FDIC coverage for demand deposits and $250,000 FDIC coverage for time and savings deposits in each bank in the state.

The College's deposits with financial institutions did not exceed federal depository insurance limits at June 30, 2009.

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or governmental investment pools (such as the Custer County Investment Pool).

NOTE 3. RECEIVABLES

An allowance for uncollectible accounts was not maintained for real and personal property taxes receivable. The direct write-off method is used for these accounts.

Property tax levies are set in August, in connection with the budget process, and are based on taxable values listed as of January 1 for all property located in the District. Taxable values are established by the Montana Department of Revenue, and a revaluation of all property is required to be completed on a periodic basis. Taxable value is defined by Montana statute as a fixed percentage of market value.

Real property taxes are generally billed in October and are payable 50% by November 30 and 50% by May 31. After these dates, taxes become delinquent and become a lien on the property. Personal property is assessed and personal property taxes are billed throughout the year, with a significant portion generally billed in May, June, and July. Personal property taxes are based on levies set during the prior August. These taxes become delinquent 30 days after billing.

Taxes that become delinquent are charged interest at the rate of 5/6 of 1% a month plus a penalty of 2%. Real property on which taxes remain delinquent and unpaid may be sold at tax sales. In the case of personal property, the property is to be seized and sold after the taxes become delinquent.

NOTE 4. INVENTORIES AND PREPAIDS

Inventories are valued at cost using the First In First Out (FIFO) method.

The cost of inventories are recorded as an expenditure when consumed.

Prepaid expenses to vendors that benefit future reporting periods and are also reported on the consumption basis.

NOTE 5. CAPITAL ASSETS

The College's assets are capitalized at historical cost or estimated historical cost. College policy has set the capitalization threshold for reporting capital assets at $2,500. Gifts or contributions of capital assets are recorded at fair market value when received. The costs of normal maintenance and repairs are charged to operations as incurred. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	50 years
Equipment	5–20 years
Library	5 years
Software	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in the basic financial statements. In accordance with Statement No. 34, the College has included the value of all infrastructure into the 2008-09 Basic Financial Statements. The College has elected not to retroactively report general infrastructure assets.

The following is a summary of capital assets:

	Balance July 1, 2008	Additions	Retirements	Balance June 30, 2009
Capital assets not being depreciated:				
Land	$ 206,412	$ -	$ -	$ 206,412
Construction in Progress	-	176,277	-	176,277
Total capital assets not being depreciated	$ 206,412	$ 176,277	$ -	$ 382,689
Other Capital Assets:				
Buildings	$ 6,786,506	$ 360,263	$ -	$ 7,146,769
Machinery and equipment	1,125,566	173,411	(2,500)	1,296,477
Software	99,692	-		99,692
Library Inventory	96,035	17,932	(42,210)	71,757
Total other Capital Assets at historical cost	$ 8,107,799	$ 551,606	$ (44,710)	$ 8,614,695
Less Accumulated Depreciation	$(3,415,358)	$(307,540)	$ 44,460	$(3,678,438)
Total	$ 4,898,853	$ 420,343	$ (250)	$ 5,318,946

NOTE 6. LONG TERM DEBT OBLIGATIONS

During the year ended June 30, 2009, the following changes occurred in liabilities reported in long-term debt:

Purpose	Balance July 1, 2008	Principal Payment	Balance June 30, 2009
Stockman Bank	$ 257,519	$ 20,177	$ 237,342
USDA Rural Development #1	238,478	20,194	218,284
First Interstate Bank	327,623	12,414	315,209
Montana Board of Investments	174,225	28,739	145,486
USDA Rural Development #2	1,437,960	16,984	1,420,976
Total	$ 2,435,805	$ 98,508	$ 2,337,297

Stockman Bank

The note payable to Stockman Bank of Montana was in the original amount of $400,000. This note is payable in monthly installments of $3,387 on the 23rd day of each month. This note bears interest at a variable rate, not less than 7.16% per annum nor more than 11.16% per annum. The interest rate as of June 30, 2006 was 7.16% per annum. This note is secured by a second mortgage on two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for Stockman Bank:

For Fiscal Year Ended	Principal	Interest
2010	$ 21,929	$ 16,283
2011	23,552	14,661
2012	25,294	12,918
2013	27,166	11,046
2014	29,176	9,036
2015	31,335	6,877
2016	33,654	4,558
2017	36,144	2,068
2018	9,092	107
Total	$ 237,342	$ 77,554

USDA Rural Development #1

The first note payable to the USDA Rural Development was in the original amount of $400,000. This note is payable in semi-annual installments of $15,936 due on March 23rd and September 23rd of each year. This note bears interest at 5.0% per annum. This note is secured by two tracts of land, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on September 23, 2017.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2010	$ 21,220	$ 10,651
2011	22,294	9,577
2012	23,423	8,448
2013	24,609	7,263
2014	25,855	6,017
2015	27,164	4,708
2016	28,539	3,333
2017	29,983	1,888
2018	15,197	388
Total	$ 218,284	$ 52,273

Department of Housing and Urban Development

The note payable to the Housing and Urban Development was in the original amount of $205,541 and was paid off during the fiscal year ended June 30, 2008. This note is payable in semiannual installments on January 1st and July 1st of each year. Interest is payable at 3% per annum. There is no security for this loan.

First Interstate Bank

The mortgage payable to First Interstate Bank was in the original amount of $370,000. This mortgage is payable in monthly installments of $2,736 on the 18th day of each month. This mortgage bears interest at a variable rate, currently at 5%. This mortgage is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this mortgage is due on May 18, 2023. This note payable is guaranteed by the USDA Rural Development for 90% of the outstanding balance of the note payable.

Annual requirement to amortize debt for First Interstate Bank:

For Fiscal Year Ended	Principal	Interest
2010	$ 17,070	$ 15,760
2011	17,923	14,907
2012	18,820	14,011
2013	19,761	13,070
2014	20,749	12,082
2015	21,786	11,044
2016	22,875	9,955
2017	24,019	8,811
2018	25,220	7,610
2019	26,481	6,349
2020	27,805	5,025
2021	29,195	3,635
2022	30,655	2,175
2023	12,850	644
Total	$ 315,209	$ 125,078

Montana Board of Investments

The Intercap note payable to the Montana Board of Investments was in the original amount of $300,000 and will be paid off on August 15, 2013. This note is payable in semiannual installments on August 15th and February 15th of each year. Interest is payable at 3.25% per annum. This note is secured by a deed of trust on the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Intercap loans have variable interest rates. Interest rates are subject to change annually. Interest rates to the borrower are adjusted on February 16th of each year, and are based on a spread over the interest paid on one-year term, tax-exempt bonds which are sold to fund the loans.

Annual requirement to amortize debt for Montana Board of Investments:

For Fiscal Year Ended	Principal	Interest
2010	$ 30,784	$ 6,183
2011	31,793	4,875
2012	32,834	3,524
2013	33,910	2,128
2014	16,165	687
Total	$ 145,486	$ 17,397

USDA Rural Development #2

The second note payable to the USDA Rural Development was in the original amount of $1,500,000. This note is payable in monthly installments of $6,630 on the 18th day of each month. This note bears interest at 4.375% per annum. This note is secured by the residence hall building, and an assignment of rental revenue from all of the student dormitories owned by the College. Final payment on this note is due on May 18, 2044.

Annual requirement to amortize debt for USDA Rural Development:

For Fiscal Year Ended	Principal	Interest
2010	$ 17,746	$ 61,814
2011	18,538	61,022
2012	19,365	60,195
2013	20,230	59,330
2014	21,133	58,427
2015	22,076	57,484
2016	23,061	56,499
2017	24,091	55,469
2018	25,166	54,394
2019	26,290	53,270
2020	27,463	52,097
2021	28,689	50,871
2022	29,970	49,590
2023	31,307	48,253
2024	32,705	46,855
2025	34,165	45,395
2026	35,690	43,870
2027	37,283	42,277
2028	38,947	40,613
2029	40,686	38,874
2030	42,502	37,058
2031	44,399	35,161
2032	46,381	33,179
2033	48,451	31,109
2034	50,614	28,946

2035	52,873	26,687
2036	55,233	24,327
2037	57,699	21,861
2038	60,275	19,285
2039	62,965	16,595
2040	65,776	13,784
2041	68,712	10,848
2042	71,779	7,781
2043	74,983	4,577
2044	63,733	1,286
Total	$1,420,976	$1,349,083

NOTE 7. COMPENSATED ABSENCES

Compensated absences payable, which represent vacation and sick leave earned by employees which is payable on termination, were as follows:

	Balance July 1, 2008	Increase (Decrease)	Balance June 30, 2009
Vacation and sick leave	$ 290,859	$ 28,304	$ 319,163

NOTE 8. STATE-WIDE RETIREMENT PLANS

The College participates in two cost-sharing, multiple-employer defined benefit pension plans. The plans provide retirement, death, and disability benefits to plan members and beneficiaries with amounts determined by the State. Teaching employees (including principals and superintendents) are covered by Montana Teachers Retirement System (TRS), and substantially all other College employees are covered by the Montana Public Employees Retirement System (PERS). The plans are established by Montana law and administered by the State of Montana.

Contribution rates are required and determined by State law. The contribution rates, expressed as a percentage of covered payroll for the fiscal year ended June 30, 2009, were:

	PERS	TRS
Employer	6.935%	7.47%
Employee	6.90%	7.15%
State	0.235%	0.20%

The State contribution qualifies as an on-behalf payment. These amounts have not been recorded in the College's financial statements and were considered immaterial.

Publicly available financial reports that include financial statements and required supplementary information may be obtained for the plans by writing or calling:

1. Public Employees Retirement Division, P.O. Box 200131, Helena, Montana 59620-0131 Phone: 1-406-444-3154.
2. Teachers' Retirement System, P.O. Box 200319, Helena, Montana 59620-0139 Phone: 1-406-444-3134.

Total contributions for the years ended June 30, 2007, 2008, and 2009, as listed below, were equal to the required contributions for each year.

	PERS	TRS
2007	$ 181,050	$ 193,600
2008	$ 197,185	$ 216,707
2009	$ 217,375	$ 220,730

NOTE 9. POST EMPLOYMENT BENEFITS

Terminated employees may remain on the College's health insurance plan for up to 18 months if they pay the monthly premiums. This benefit is required under the federal COBRA law. Retirees may remain on the College's health plan to age 65, provided they pay the monthly premiums. State law requires the College to provide this benefit. No cost can be estimated for the above benefits, although there is the probability that there are higher medical costs for retirees which would result in additional costs to the insurance program.

The College had 1 retired employee and 8 terminated employees participating in the plan as of June 30, 2009.

NOTE 10. RELATED PARTY TRANSACTIONS

Related Party Transactions Component units
The following schedule presents significant transactions between the primary government and its component units during the year ended June 30, 2009:

Component Unit	Significant Transactions
Miles Community College Endowment	Donated $42,065

NOTE 11. RESTATEMENTS

During the current fiscal year, the following adjustments relating to prior years' transactions were made to fund balance and net assets.

Fund	Amount	Reason for Adjustment
Miles Community College Endowment Fund	$ 1,596	Prior year expenditure posting error

NOTE 12. RISK MANAGEMENT

The College faces considerable number of risks of loss, including (a) damage to and loss of property and contents, (b) employee torts, (c) professional liability, i.e., errors and omissions, (d) environmental damage, (e) workers' compensation, i.e., employee injuries, and (f) medical insurance costs of employees. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Insurance Polices:
Commercial policies transferring all risks of loss, except for relatively small deductible amounts are purchased for property and content damage, employees torts, and professional liabilities. Employee medical insurance is provided for by a commercial carrier. And, given the lack of coverage available, the College has no coverage for potential losses from environmental damages.

NOTE 13. PENDING LITIGATION

There was no pending or threatened litigation or unasserted claims or assessments against the College as of June 30, 2009.

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REQUIRED SUPPLEMENTAL INFORMATION

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Miles Community College, Custer County, Montana
Functional Classification of Operating Expenses
For the Year Ended June 30, 2009

	Instruction	Public Service	Academic Support	Student Services	Institutional Support	Operation and Maintenance of Plant	Auxiliary	Depreciation	Totals
Salaries	$ 1,423,015	$ 46,384	$ 652,392	$ 462,989	$ 483,685	$ 140,269	$ 217,787	$ -	$ 3,426,521
Benefits	409,468	14,704	244,965	168,820	170,563	62,805	73,150	-	1,144,475
Travel	19,153	917	68,703	120,468	31,738	-	353	-	241,332
Supplies	93,523	5,379	88,464	107,420	13,358	40,364	54,414	-	402,922
Contracted services	23,379	17,729	114,566	82,873	37,934	53,442	22,483	-	352,406
Rent and lease	8,999	395	39,740	77,304	2,904	2,385	6,872	-	138,599
Repairs and maintenance	33	-	32	2,390	-	41,456	14,051	-	57,962
Advertising	6,253	2,094	2,788	68,147	-	693	4,375	-	84,350
Meetings and dues	3,177	-	268	6,492	17,030	-	-	-	26,967
Utilities	-	-	7,693	11,543	-	79,451	67,493	-	166,180
Student support	697	-	-	3,745	-	-	-	-	4,442
Communications	19,546	1,095	29,365	8,243	31,771	-	9,209	-	99,229
Software	10,435	-	16,960	-	-	-	-	-	27,395
Scholarships and grants	48,931	-	1,008,996	66,514	-	-	38,788	-	1,163,229
Insurance	1,028	-	1,268	4,874	-	46,252	11,775	-	65,197
Indirect costs	7,566	-	68,107	-	-	-	-	-	75,673
Food for resale	-	-	-	-	-	-	176,073	-	176,073
Items for resale	-	-	-	-	-	-	178,990	-	178,990
Other	38,279	1,179	34,154	79,421	1,826	-	17,762	-	172,621
Bad debt	-	-	-	-	43,237	-	-	-	43,237
Depreciation expense	-	-	-	-	-	-	-	307,540	307,540
Total	$ 2,113,482	$ 89,876	$ 2,378,461	$ 1,271,243	$ 834,046	$ 467,117	$ 893,575	$ 307,540	$ 8,355,340

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana

Student Financial Aid Modified Statement of Cash Receipts and Disbursements

For the Year Ended June 30, 2009

(Unaudited)

	Pell	Perkins	CWS	SEOG
Beginning cash balance	$ (16,889)	$ 18,368	$ (6,193)	$ -
Additions:				
Federal advances	649,850	865	41,880	30,762
State matching funds	-	-	-	9,421
Total Additions	$ 649,850	$ 865	$ 41,880	$ 40,183
Deductions:				
Distribution to students	$ 637,563	$ -	$ 32,774	$ 40,183
Administrative expenses	-	-	2,783	-
Total Deductions	$ 637,563	$ -	$ 35,557	$ 40,183
Net change to cash	$ 12,287	$ 865	$ 6,323	$ -
Ending cash balance	$ (4,602)	$ 19,234	$ 130	$ -

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedule of Expenditures
Student Financial Assistance Programs
For the Year Ended June 30, 2009
(Unaudited)

		2009
Perkins Loan Program		
Student loan advances	$	-
College Work Study		
Wages	$	30,231
Administrative cost		2,783
Total College Work Study	$	33,014
Supplemental Education Opportunity Grant Program		
Student grants	$	40,183
Pell Grant Program		
Student grants	$	641,004

See accompanying Notes to the Financial Statements

Miles Community College, Custer County, Montana
Schedule for Full Time Equivalent
For the Year Ended June 30, 2009

Semester	Resident	WUE	Nonresident	Total
Summer 2008	50.7	0	0.7	51.4
Fall 2008	385.9	2.93	63.2	452.03
Spring 2009	359.7	2.4	57.9	420

The FTE calculations were based on enrollment at the end of the third week of the semester.

See accompanying Notes to the Financial Statements

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Trustees
Miles Community College
Custer County
Miles City, Montana

We have audited the business-type activities, discretely presented component unit and aggregate remaining fund information of Miles Community College, Custer County, Montana, as of and for the year ended June 30, 2009, which collectively comprise the College's basic financial statements and have issued our report thereon dated December 18, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Miles Community College's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Miles Community College's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Miles Community College's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Miles Community College's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Miles Community College's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Miles Community College, in a separate letter dated December 18, 2009 included in this report.

Miles Community College's response to the findings identified in our audit is described in item 09-1, located in the following letter. We did not audit Miles Community College's response, and accordingly, we express no opinion on it.

This report is intended solely for the information and use of the audit committee, management, the Board of Trustees, the Montana Department of Administration, the Montana Office of Public Instruction, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Denning, Downey and Associates, CPA's, P.C.

December 18, 2009

Denning, Downey & Associates, P.C.
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REPORT ON OTHER COMPLIANCE, FINANCIAL, AND INTERNAL ACCOUNTING CONTROL MATTERS

Board of Trustees
Miles Community College
Custer County
Miles City, Montana

Immaterial instances of noncompliance along with findings relating to financial or accounting matters, as well as our recommendations, are presented below. Also, other matters involving the internal control structure and its operation that are not considered to be reportable conditions under standards established by the American Institute of Certified Public Accountants are disclosed below for your information, along with our recommendations for improvement where applicable.

09-1 Miles Community College Endowment Fund

Condition:
The Miles Community College Endowment Executive Director handles money, makes the deposit, and sends thank you notes to the donors.

Criteria:
Separation of duties is one of the key concepts of internal control. Separation of duties assists with the prevention of fraud and errors and is achieved by allocating the tasks and responsibilities for a specific entity process among several users.

Effect:
The lack of separation of duties eliminates the appropriate level of checks and balances upon the activities of individuals.

Cause:
Size of entity and related cost versus benefits.

Recommendation:
We recommend that the Endowment separate the functions of cash handling to the greatest extent possible.

Auditee Response:
As a Board, we realize the risk of only one person asking for money, collecting that money, and depositing that money. Being a one person employer and the fact that most of the contributions are made by check made out to the Miles Community College Endowment, we accept that risk. Don Hartman, President, MCC Endowment Board.

Denning, Downey and Associates, CPA's, P.C.

December 18, 2009

Denning, Downey & Associates, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

1740 U.S. Hwy 93 South - Suite 101 Kalispell, MT 59901

REPORT ON PRIOR AUDIT REPORT RECOMMENDATIONS

Board of Trustees
Miles Community College
Custer County
Miles City, Montana

The prior audit report contained no recommendations.

Denning, Downey and Associates, CPA's, P.C.

December 18, 2009